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University of Maryland at College Park

Center Office: IRIS Center, 2105 Morrill Hall, College Park, MD 20742
Telephone (301) 405-3110 • Fax (301) 405-3020

RECOMBINANT PROPERTY IN
IN EAST EUROPEAN CAPITALISM

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David Stark

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Author: David Stark, Department of Sociology, Cornell University, Ithaca, New York.

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David Stark

Department of Sociology
Cornell University
Ithaca, NY 14853

tel: 607-255-1419
FAX: 607-255-8473
e-mail: David-Stark@cornell.edu

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Cornell University

Executive Summary for IRIS

The starting premise of this paper is that the greatest obstacle to understanding change in contemporary Eastern Europe is the concept of transition. In place of transitology, the science of the not yet, it examincs thc actual processes of transformation in which the emergence of new elements takes place through reconfigurations of existing organizational forms. Change, even fundamental change of the social world, is not the passage from one order to another but rearrangements in the patterns of how a multiplicity of social orders are interwoven. From that perspective we see organizational innovation not as replacement but as recombination.

This paper develops this perspective of transformation as recombination to examine property transformation in the Hungarian economy based on data collected by the author during an eleven month stay in Budapest in 1993-94. Research reported heke include: 1) Field research in six Hungarian enterprises. Three of these firms are among the twenty largest firms in Hungary and are at the core of Hungarian manufacturing in metallurgy, electronics, and rubber products. Three are small and medium-size firms in plastics, machining, and industrial engineering. 2) Compilation of a data set on the ownership structure of the 200 largest Hungarian corporations (ranked by sales) and the top twenty-five Hungarian banks. These data were augmented by ownership data drawn from the files of some 800 firms under the portfolio management of the State Property Agency. 3) Interviews with leading actors in banks, agencies, parties, and ministries.

A fundamental analytic question is not where to draw the boundaries of private sector but whether the post-socialist economies can adequately be represented in a two-sector model. The findings of this paper indicate the emergence of new property forms that are neither statist nor private, in which the properties of private and public are dissolved, interwoven, and recombined. Property in East European capitalism is recombinant property.

Based on ownership data from the Hungarian Courts of Registry the paper documents significant levels of inter-enterprise ownership and describes the patterns in which large Hungarian enterprises have become major shareholders of other large enterprises. Based on enterprise level investigations the paper documents the process of decentralized reorganization in which firms break up their operations into numerous corporations that spin as “corporate satellites” around the formerly socialist enterprise and examines the ownership relations of these satellites. The new property forms find horizontal ties of cross-ownership intertwined with vertical ties of nested holdings.

Recombinant property is a form of organizational hedging, or portfolio management, in which actors are responding to extraordinary uncertainty in the organizational environment. For enterprise actors the question is not simply "Will I survive the market test?" but also, under what conditions is proof of worth on market principles neither sufficient nor necessary to survive. Under conditions not simply of market uncertainty but of organizational uncertainty, there can be multiple (and intertwined) strategies for survival -- based in some cases on profitability but in others on eligibility. Recombinant property is an attempt to have resources in more than one organizational form -- or similarly -- to produce hybrid organizational forms that can be justified or assessed by more than one standard of measure.

The clash of competing organizational principles that characterizes postsocialist societies produces new organizational forms; and this organizational diversity can form a basis for greater adaptability. At the same time, however, this multiplicity of ordering principles creates problems of accountability. These problems are examined in the final part of the paper through an analysis of the Hungarian government's recent programs of debt consolidation totalling $3 billion (amounting to 10 percent of Hungarian GDP and 18.3 percent of the projected 1994 national budget). The causes and consequences of state intervention to prevent a collapse of the financial sector are examined in detail.

Recombinant property, the paper concludes, is produced in two simultaneous processes. Accompanying the decentralized reorganization of assets is a centralization of liabilities. Both processes blur the boundaries between public and private. On the one hand, privatization produces the criss-crossing lines of recombinant property; on the other, debt consolidation transforms private debt into public liabilities. Together these twinned moments of property transformation create a new basis of paternalism in Hungary. Whereas in the state socialist economy paternalism was based on the state's attempts at the centralized management of assets, in the first years of the post-socialist economy paternalism is based on the state's attempts at the centralized management of liabilities.

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David Stark is Associate Professor of Sociology and International Business at Cornell University. During the 1993-94 academic year, he was a Visiting Fellow at the Institute for Advanced Study - Collegium Budapest at the invitation of Professor János Kornai. His recent publications include: an essay on organizational diversity in Contemporary Sociology, two studies on privatization in East European Politics and Societies, and a comparative analysis of East European democratization in the Journal of International Affairs.

Recombinant Property in East European Capitalism

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Cornell University

The science of the not vet

How can mainstream economics explain the momentous transformation in Eastern Europe when it lacks a theory of change? The answer has been an undisguised borrowing of the problematic of transition from sociology, the discipline founded at the turn of century on studies of transition – whether from tradition to modernity, gemeinschaft to gesellschaft, rural to urban society, feudalism to capitalism, or mechanical to organic solidarity. For the founders of sociology, the crisis of European societies in the last decades of the Nineteenth Century was diagnosed as a normative and institutional vacuum. The old order regulated by tradition had passed, but a new moral order had not yet been established. The crumbling of the traditional structures, Durkheim wrote, had

> swept away all the older forms of organization. One after another, thcsc have disappeared either through the slow usury of time or through great disturbances, but without being replaced (Durkheim, 1897:446, cited in Wacquant, 1993:4).

During our own fin de siécle not the crumbling of traditional structures but the collapse of communism gives new life to the transition problematic. Whereas Durkheim saw sociology as the science of morality that could guide society from the "state of mental confusion" to a stable moral order, today it is the science of choice that will guide the economies of Eastern Europe through the transition from socialism to capitalism. The difference between the transition that opened the century and the transition at its close is, of course, that this time, with almost a century of experience, we are no longer burdened by the ignorance of outcomes. Armed with this knowledge of destination, the marriage of economics with the transition problematic generates a new science of transition.

As a sociologist, I should, no doubt, be flattered that the more exalted specialization has chosen, at such a critical time, such an important concept from my own discipline. But I am not sanguine about this borrowing. Indeed, it is the starting premise of this paper that the greatest obstacle to understanding change in contemporary Eastern Europe is the concept of transition.

As the science of the not yet, transitology is known to many for its engineering applications: blueprints, road maps, recipes, therapies, formulae, and marching orders for how to get from socialism to capitalism in six steps or sixty (Sachs, 1989: Klaus, 1992; Peck and Richardson, 1992). Working away from the glare of publicity are the theoreticians of the science who aim to systemize a social embryology for the rigorous analysis of what is about to be (Nee, 1989; Nee and Lian, 1994; Deffains, 1993). Common to both the theoretical and the applied sides is an underlying teleology in which concepts are driven by hypothesized end-states. As in all versions of modernization theory, transitology begins with a future that is not only desired but already known. The destination has been designated: Western Europe and North America hold the image of the East European future.

Although it begins with the future, transitology is not silent about past and present for this science holds a distinctive philosophy of history; The transition is undergone by a society as the passage through a liminal state suspended between one social order and another, each conceived as a stable equilibrium organized around a coherent and more or less unitary logic.

Such a view overstates the coherence of social forms both before and after the hypothesized transition and conversely exaggerates the degree of social disorganization in the presumed liminal period of "institutional vacuum." Difficult to assimilate within the transition problematic are the numerous studies from Eastern Europe documenting parallel and contradictory logics in which ordinary citizens were already experiencing, for a decade prior to 1989, a social world in which various domains were not integrated coherently (Gábor, 1979, 1986; Stark, 1989; Mirody, 1992). Through survey research and ethnographic studies researchers have identified a multiplicity of social relations that did not conform to officially prescribed hierarchical patterns. These relations of reciprocity and market-like transactions were widespread inside the socialist sector as well as in the "second economy" and stemmed from the contradictions of attempting to "scientifically manage" an entire national economy. At the shop-floor level, shortages and supply bottlenecks led to bargaining between supervisors and informal groups; at the managerial level, the task of meeting plan targets required a dense network of informal ties that cut across enterprises and local organizations; and the allocative distortions of central planning reproduced the conditions for the predominantly part-time enterprcncurship of the second economies that differed in scope, density of network connections, and conditions of legality across the region (Kornai, 1980; Gábor, 1979; Laky 1979; Sabel and Stark, 1982).

The existence of parallel structures (however contradictory and fragmentary) in these informal and interfirm networks means that the collapse of the formal structures of the socialist regime does not result in an institutional vacuum. Instead, we find the persistence of routines and practices, organizational forms and social ties, that can become assets, resources, and the basis for credible commitments and coordinated actions in the postsocialist period.[1] In short, in place of the disorientation expected in the transition problematic (Bunce and Csanadi, 1992), we find the metamorphosis of subrosa organizational forms and the activation of pre-existing networks of affiliation.

By the 1980s, the societies of Eastern Europe were decidedly not systems organized around a single logic; nor are they likely to become, any more or less than our own, societies with a single system identity.[2] A modern society is not a unitary social order but a multiplicity of orders, a plurality of ordering principles for reaching agreement, a polyphony of accounts of work, value, and justice (Boltanski and Thevenot, 1991; White, 1992a; Stark, 1990a). Change, even fundamental change, of the social world is not the passage from one order to another but rearrangements in the patterns of how multiple orders are interwoven.

Thus, instead of transition we examine transformation, in which new elements emerge through adaptations, rearrangements, permutations, and reconfigurations of existing organizational forms. Instead of institutional vacuum we examine institutional legacies rethinking the metaphor of collapse to ask whether differences in how the pieces fell apart have consequences for rebuilding new institutions. Instead of examining country cases according to the degree to which they conform to or depart from a preestablished model, we see differences in kind and ask how different paths of extrication from state socialism shape different possibilities of transformation. Instead of building tabula rasa on the ruins of communism, we examine how actors in particular locales and settings are rebuilding organizations and institutions with the ruins of communism. Instead of paralysis and disorientation we should expect to see actors, already accustomed to negotiating the ambiguity of contradictory social forms, adjust to new uncertainties by improvising on practiced routines. Instead of grand schemes of architecture, of social engineering, and designer capitalism we examine transformative processes of bricolage.

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[1] On the importance of routines and habits see especially Bourdieu (1990) and Nelson and Winter (1982).

[2] I.e., I don't live in a market economy but in an economy in which markets are but one of the coordinating mechanisms. (On the distinction between market orientation and market coordination, see Bresser, 1993. For analyses of the broad range of non-market coordinating mechanism consistent with market orientation, see Schmitter, n.d.; and Boyer, 1991). The idea that Eastern Europe should be in transit to a market economy mistakes the triumph of capitalism for the triumph of the market and -- like the introduction of socialism, which sought to impose a single coordinating mechanism -- risks destroying the organizational diversity required for flexible adaptation.

Most important, instead of thinking about institutional or organizational innovation as replacement, we see it as the disassemblage and reassemblage of existing institutional configurations. In short, we think of organizational innovation as recombination.

To survive in a rapidly changing environment actors redefine and recombine resources. These resources include organizational forms (that are likely to migrate across domains), habituated practices, and social ties, whether official or informal. Thus, transformation will resemble innovative adaptations that combine seemingly discrepant elements -- bricolage -- more than architectural design. In this perspective, actors do not set out to create "a market economy." They are not motivated to pursue particular strategies by "systemic requirements" but from the urgency of their practical situations. Instead of designating a future that shapes the present, we should examine how the future is being shaped by the pragmatics of the present. This pragmatics -- redeploying resources to survive -- may yet result in private property and competitive markets. More likely, they will render property boundaries more ambiguous and create new forms of coordination that are neither market nor hierarchy.

Postsocialist societies can be seen as an extraordinary laboratory to test existing social theories. This paper does not formulate such a test -- not because the changes examined are not extraordinary but because momentous changes are not likely to leave existing theories intact for simple testing. The efforts of this paper are less grandiose than elaborating a "new theory of social change" and more ambitious than testing old ones. Its task is to craft analytic concepts capable of registering and translating the specific insights and patterned learning being generated in this new social experiment. In developing a perspective of transformation as recombination in the specifically postsocialist setting, it provides concepts for rethinking property, organizational change, and the relationship between adaptability and accountability. Outside the tired dualism of deductive versus inductive approaches it sees merit, at this critical juncture, in a research strategy that formulates concepts with an eye to theory while closely grounded in empirical contexts. The arguments presented here are thus based on data collected by the author during an eleven month stay in Budapest in 1993-94.[3] That research includes: 1) Field research in six Hungarian enterprises. Three of these firms are among the twenty largest firms in Hungary and are at the core of Hungarian manufacturing in metallurgy, electronics, and rubber products. Three are small and medium-size firms in plastics, machining, and

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[3] The author was a Visiting Fellow at the Institute for Advanced Study, Collegium Budapest, at the invitation of János Kornai.

industrial engineering.[4] 2) Compilation of a data set on the ownership structure of the 200 largest Hungarian corporations (ranked by sales) and the top twenty-five Hungarian banks.[5] These data were augmented by ownership data drawn from the files of some 800 firms under the portfolio management of the State Property Agency. 3) Interviews with leading actors in banks, agencies, parties, and ministries.[6]

In the sections that follow we shall see that property transformation is not a transition from public to private. After examining new forms of recombinant property, we reflect on how organizational change in the postsocialist setting can contribute to our understanding of the sources of organizational diversity. With a sociological notion of accounts, we see actors diversifying their assets, redefining and recombining resources. With this same notion of accountings, we then examine property transformation in terms not only of rights and assets but also of liabilities and obligations. As we shall see, parallel to the decentralized reorganization of assets is a centralization of liabilities, and these twinned moments yield a multiplicity of justificatory claims. To understand these processes we outline a conception of complexity that is an alternative to the transition models of both Marxism and modernization theory.

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[4] This field research was conducted in collaboration with László Neumann, Senior Research Fellow, Institute of Labor Studies. These field investigations involved longitudinal analysis of the same firms in which we had earlier studied an organizational innovation of internal subcontracting inside the socialist enterprise during the mid-1980s (Stark, 1986, 1989, 1990; Neumann, 1990).

[5] Such data collection is not a simple matter where capital markets are poorly developed. There is no Hungarian Moodv's and certainly no corporate directory equivalent to Industrial Groupings in Japan or Keiretsu no Kenkvu (see, for example, Gerlach and Lincoln, 1993). The labor-intensive solution has been to gather that data directly from the Hungarian Courts of Registry. Corporate files at the registry include not only information on officers and members of the board of directors but also a complete list nf the company's owners at the most recent shareholders meeting. My thanks to Lajos Vékás, Professor of Law, ELTE, and Rector of the Institute for Advanced Study, Collegium Budapest, for his interventions to secure access to these data and to Eszter Keserü, Szabolcs Kemény, József Martin, and Jonathan Uphoff for assistance in data collection.

[6] A partial list of interviewees includes: the former President of the National Bank; the former Deputy-Minister of the Ministry of Finance; executives of the four largest commercial banks and two leading investment banks; the former President of the State Holding Corporation; directors, advisors, and officials of the State Property Agency; senior officials of the World Bank's Hungarian Mission; the chief economic advisors of the two major liberal parties; the President of the Federation of Hungarian Trade Unions; and leading officials of the Hungarian Socialist Party (who later ascended to high-level positions in the new Socialist-Liberal coalition government).

Property Transformation in Hungary: The Policy Debate

Our point of departure is a question that stands at the center of contemporary debates in the societies of Eastern Europe and the former Soviet Union. By what means can private property become the typical form of property relations in economies overwhelmingly dominated by state ownership of productive assets?

Much of that debate can be organized around two fundamental policy strategies. According to the first strategy, the institutionalization of private property can best be established by transferring assets from public to private hands. Despite differences in the specific methods designated for such privatization (e.g., sale versus free distribution, etc.), the various proposals within this radical perspective share the assumption that the creation of a private sector begins with the existing state owned enterprises. That is, the basic organizational units of the emergent market economy will be the pre-existing but newly privatized enterprises.

The alternative policy strategy argues from the perspective of institutional (and specifically, evolutionary) economics that, although slower, the more reliable road to institutionalizing private property rests in the development of a class of private proprietors. Instead of transferring the assets of a given organizational unit from one ownership form to another, public policy should lower barriers to entry for small and medium scale genuinely private ventures. Instead of focusing on the existing state owned enterprise, this perspective typically looks to the existing second economy entrepreneurs as the basic organizational building block of an emergent market economy.

Recent evidence suggests that Hungary is adopting neither a Big Bang approach nor the policy prescriptions of evolutionary economics.[7] Contrary to the optimistic scenarios of domestic politicians and western economists who foresaw a rapid transfer of assets from state owned enterprises to private ownership, the overwhelming bulk of the Hungarian economy remains state property. Two years after Prime Minister Jozsef Antall confidently announced that his new government would privatize more than fifty percent of state property by 1995, the director of the Privatization Research Institute functioning alongside the State Property Agency estimates that only about 3 percent of the state owned productive capital has been privatized (Mellár, 1992).

Contrary as well to the hopes of many observers that the new government might adopt a policy of stimulating new entrants to a dynamic private sector based on the

[7] This terminology is drawn from Murrell, 1990.

proto-entrepreneurial experiences of "second economy" producers, the evidence on Hungary's private sector is similarly discouraging. Although the number of registered private ventures has skyrocketed, Hungarian researchers advise caution in interpreting the numbers. Some firms exist only in the courts' registries having never produced any income, and a significant number are "dummy firms" set up to help intellectuals and professionals write off expenses such as rent, telephone, and heating for their apartments (Laky, 1992). A considerable body of evidence now suggests that the second economy has not become a dynamic, legitimate private sector: many entrepreneurs (a majority in some categories) still engage in private ventures only as a second job (Laky, 1992; Gábor, 1992, 1994); tax evasion is pervasive; and although employment is slowly increasing in the sector, most researchers agree that the proportion of unregistered work (for which the state receives no social security payments and the employee receives no benefits) is increasing faster (see Kornai, 1992:13).

These observations by Hungarian researchers suggest skepticism about the confident assertions (in ever more excited and breathless tones) of the type "x percent of the GNP of Poland (Hungary, Russia, or the Czech Republic) are now generated in the private sector."[8] These are bold statements when one considers the tenuous validity of statistics of this kind in contemporary Eastern Europe where statistical agencies face enormous technical problems. For example, constructing even so basic an instrument as the representative sample (finding the part that stands for the whole) is difficult where the shape and contours of the economy are still unknown. Such measurement problems are compounded, moreover, by political pressures to show higher and higher levels of "private sector" activity in order to represent better the government's case to international lending institutions, potential foreign investors, and the domestic electorate. The race among Hungary, Poland, and the Czech Republic to show the highest private sector statistics to the IMF recalls, of course, an earlier race during the period of "building socialism" (especially immediately following the ouster of Tito's Yugoslavia from the Cominform) when the parties and governments of these countries competed for the right to claim the highest proportion of

[8] See, for example, the special section of The Economist, March 13, 1993. Much of the current literature on the "private sector" in East Central Europe starts from the assumption that all forms of economic activity outside "the public sector" should be counted as taking place within the private sector. But should our criteria for designating a private sector be so inclusive as to include the kinds of primitive trade in household articles in the "Polish markets" that one can encounter on street corners, vacant lots, and under the shelter of elevated roadways across the region? Is this the vaunted free market capitalism, or is it just flea market capitalism? Journalists and politicians can call it what they like, but as scholars our classifications should be more rigorous and this kiosk capitalism should not be included in our more restrictive category of private sector.

collectivized or state property in their national statistics. Indeed, it is an open secret in Budapest that high government officials urged the use of different statistical cut-offs and measures upon returning from international conferences where Polish officials proudly displayed figures showing that the Hungarians no longer deserved the yellow jersey as first place in the statistical race to capitalism.

These tendencies together with new forms of corruption, extortion, and exploitation have prompted one researcher to label the transition as one "from second economy to informal economy" arguing that it is now, under these new conditions, that Latin American comparisons are more applicable to the Hungarian setting (Sik, 1992). When private entrepreneurs look to government policy they see only burdensome taxation, lack of credits, virtually no programs to encourage regional or local development, and inordinate delays in payments for orders delivered to public sector firms (see Webster, 1992; Kornai, 1992). Through violations of tax codes, off-the-books payments to workers, and reluctance to engage in capital investment (Gábor, 1992), much of the private sector is responding in kind. Such government policies and private sector responses are clearly not a recipe for the development of a legitimate private sector as a dynamic engine of economic growth.

Recombinant Property

But although they fail to correspond to the policy prescriptions of either Big Bang or evolutionary economics, significant property transformations are taking place in Hungary. Actors within the formerly state sector of large public enterprises are not waiting for the economists or policy makers to resolve the debate over transferring assets versus encouraging private proprietors. Instead of waiting, they are acting to modify and transform property relations at the enterprise level. The results, however, are not well-defined rights of private property, yet neither are they a continuation or reproduction of old forms of state ownership. For these reasons, instead of mixed, or hybrid, or intermediate property I use the term recombinant property.

Since 1989, there has been an explosion of new economic units in Hungary. In Table 1 we see that;

-- the number of state enterprises declined by about 60 percent from the end of 1988 to the middle of 1994;

-- the number of incorporated shareholding companies (RT) increased by more than twenty fold (from 116 to 2,679); and

-- the number of limited liability companies (KFT) increased most dramatically from only 450 units in 1988 to over 79,000 by the middle of 1994.

[Table 1 about here.]

Table 1 clearly indicates the sudden proliferation of new units in the Hungarian economy. But does the table provide a reliable map of property relations in contemporary Hungary? No, at least not if the data are forced into the dichotomous public/private categories that structure the discussion about property transformation in the post-socialist countries.

<u>New forms of state ownership</u>. Take first the shareholding companies (RTs) on line two of the table. Some of these corporations are private ventures newly established after the "system change." But many are the legal successors of the state-owned enterprises that would have been enumerated in the previous year on line one of the table. Through a mandatory process of "corporatization," (the deadline for which has been repeatedly extended) the former state-owned enterprise changes its legal organizational form as it is transformed into a shareholding company.

The question, of course, is who is holding the shares? In almost all cases of such transformation, the majority of shares in these corporatized firms are held by the State Property Agency (SPA) or the newly created State Holding Corporation (ÁV-Rt). That is, as "public" and "private" actors co-participate in the new recombinant property forms, the nature and instruments of the "public" dimension are undergoing change: Whereas "state ownership" in socialism meant unmediated and indivisible ownership by a state ministry (e.g., Ministry of Industry), corporatization in postcommunism entails share ownership by one or another government agency responsible for state property.

Such corporatization mandated by a privatization agency in the current context has some distinctive features of renationalization. In the 1980s, managers in Hungary (and workers in Poland) exercised de facto property rights (Mihaily, 1992). Although they enjoyed no rights over disposal of property, they did exercise rights of residual control as well as rights over residual income streams. In the 1990s, corporatization paradoxically involves efforts by the state to reclaim the actual exercize of the property rights that had devolved to enterprise-level actors. The irony, of course, is that it is precisely the agencies responsible for privatization that are acting as the agents of *étatization* by providing the instruments for the exercise of control through share ownership (Voszka, 1992).

The effective exercise of such centralized control, however, varies inversely with the scope and the degree of direct intervention (the trap of centralization already well-known in the region). Thus, simultaneously with this move toward centralization, one encounters proposals for privatizing the asset management function. In such programs, the state (through its property agencies, the SPA and the ÁV-Rt) retains the right to dispose of the property while engaging "private" actors (e.g. consulting firms, portfolio management teams) to exercise the agency's rights as shareholder regarding daily operations and strategic decisions through various kinds of subcontracting/commission schemes.

Inter-enterprise ownership. But the state is seldom the sole shareholder of the corporatized firms. Who are the other shareholders of the RTs enumerated on line two of Table 1? The straightforward answer is that the typical owners of large shareholding companies are other large shareholding companies. This conclusion is drawn from an analysis of the ownership structure in 1993 of Hungary's largest 200 enterprises and 25 largest banks (virtually the entire financial sector).[9] "Ownership structure" in this analysis is limited to the top 20 owners of a given corporation. Because only 37 firms are traded on the Budapest stock exchange, and because even in these cases shareholding is not widely dispersed among hundreds of small investors, this restriction, reasonable in itself because it limits the analysis to owners who "count," still allows us to account for at least 90 percent of the shares held in virtually every company.

In the Budapest Court of Registry and the 19 County Registries we were able to locate ownership data for 183 of the "top 200" enterprise! and for 23 of the 25 banks.[10] Some form of state ownership -- whether by the AV-Rt, the SPA, or the institutions of local government (who had typically exchanged their real estate holdings for enterprise shares) -- is present in the overwhelming majority of these enterprises and banks. 31 companies are in majority foreign ownership. Hungarian private individuals (summed down the top 20 owners) hold at least 25 percent of the shares of only 12 of the largest enterprises and banks. Most interesting from the perspective of this paper is the finding of 82 cases in which another Hungarian company is among the top 20 owners. In 41 of these cases the other Hungarian

[9] The lists of firms and banks is drawn from the Hungarian business weekly's Figyelö's "Top 200," the Hungarian counterpart of the Fortune 500. Several firms were dropped and several added after discussions with Figyelö's editors about their selection criteria.

[10] Of the 17 "missing firms:" eight files had been sealed by the judges, five were incomplete, and four enterprises did not grant permission for access to their ownership records.

companies together hold a clear majority (50% + 1 share), Thus, by the most restrictive definition, twenty percent of our 205 companies (enterprises and banks) are unambiguous cases of inter-enterprise ownership, with evidence of some degree of inter-enterprise ownership in forty percent of these large companies.

[Figure 1 about here.]

Figure 1 presents two discrete networks formed through such inter-enterprise ownership. Arrows indicate directionality in which a given firm holds shares in another large enterprise. Weak ties (shareholdings with other firms that do not have at least one other tie, whether as owner or owned, to any other firm in the network) are not displayed.[11] The relations depicted in Figure 1, it should be emphasized are the direct horizontal ties among the very largest enterprises -- the superhighways, so to speak, of Hungarian corporate networks. The diagrams presented in Figure 1 indicate a dramatically different way of mapping the social space of property transformation than that suggested in Table 1: in place of counting entities grouped by legal categories as we saw in the groupings by corporate forms in Table 1, here we register patterns of relations. We examine not the distribution of attributes but the construction of social connections.

In analyzing the relational dynamics of recombinant property, we now shift our focus from the corporate thoroughfares linking the large enterprises to each other to examine the local byways linking spin-off properties within the gravitational field of large enterprises.

Corporate satellites. Thus, we turn to the form with the most dramatic growth during the post-socialist period, the newly established limited liability companies (KFT), enumerated on line three of Table 1. Some of these KFTs are genuinely private entrepreneurial ventures. But many of these limited liability companies are not entirely distinct from the transformed shareholding companies examined above. In fact, the formerly socialist enterprises have been active founders and continue as current owners of the newly incorporated units.

The basic process of this property transformation is one of decentralized reorganization: Under the pressure of enormous debt, declining sales, and threats of bankruptcy or, in the cases of more prosperous enterprises, to forestall takeovers as

[11] The total pattern of strong and weak ties will be examined in a later study using block-model analysis, testing for bank centrality, and assessing the relationship between ownership ties and director interlocks. The purpose of that study will be to identify the major corporate groupings in the Hungarian economy.

well as attempt to increase autonomy from state ministries, directors of many large public enterprises are taking advantage of several important pieces of legislation that allow state enterprises to establish joint stock companies (RTs) and limited liability companies (KFTs). In the typical cases, the managers of these enterprises are breaking up the organization (along divisional, factory, departmental, or even workshop lines) into numerous corporations. Tt is not uncommon to find virtually all of the activities of a large public enterprise distributed among 15-20 such satellites orbiting around the corporate headquarters.

As newly incorporated entities with legal identities, these new units are nominally independent -- registered separately, with their own directors and separate balance sheets. But on closer inspection, their status in practice is semi-autonomous. An examination of the computerized records of the Budapest Court of Registry indicates, for example, that the controlling shares of these corporate satellites are typically held by the public enterprises themselves (Stark, 1992). This pattern is exemplified by the case of one of Hungary's largest metallurgy firms represented in Figure 2. As we see in that figure, "Heavy Metal," an enormous shareholding company in the portfolio of the State Holding Corporation, is the majority shareholder of 26 of its 40 corporate satellites.

[Figure 2 about here.]

Like Saturn's rings, Heavy Metal's satellites revolve around the giant corporate planet in concentric orbits. Near the center are the core metallurgy units, hot-rolling mills, energy, maintenance, and strategic planning units held in a kind of gco-synchronous orbit by no less than 100 percent ownership. In the next ring, where the corporate headquarters holds roughly 50-99 percent of the shares, are the cold-rolling mills, wire and cable production, oxygen facility, galvanizing and other finishing treatments, specialized castings, quality control and marketing units. As this listing suggests, these satellites are linked to each other and to the core units by ties of technological dependence. Like the inner ring, they are kept in geo-synchronous orbits by the headquarter's majority ownership as well as by their technological dependence. Relations between the satellites of this middle ring and the company center are marked, on one hand, by the center's recurrent efforts to introduce stricter accounting procedures and tighter financial controls countered, on the other hand, by the units' efforts to increase their autonomy -- coordinated through personal ties and formalized in the bi-weekly meetings of the "Club of KFT Managing Directors." The satellites of the outer ring are even more heterogeneous in their production profiles (construction, industrial services, computing, ceramics, machining) and are usually of lower levels of capitalization. Units of this outer ring are less fixed in Heavy Metal's gravitational field: some have recently entered and some seem about to leave.

Among the new entrants are some of Heavy Metal's domestic customers. Unable to collect receivables, Heavy Metal exchanged inter-enterprise debt for equity in its clients, preferring that these meteors be swept into an orbit rather than disintegrate in liquidation. Among those satellites launched from the old state enterprise are some for which Heavy Metal augments its less than majority ownership with leasing arrangements to keep centrifugal forces in check.

The corporate satellites among the limited liability companies enumerated on line 3 of Table I are, thus, far from unambiguously "private" ventures; yet neither are they unmistakably "statist" residues of the socialist past. Property shares in most corporate satellites are not limited to the founding enterprise. Top and mid-level managers, professionals, and other staff can be found on the lists of founding partners and current owners. Such private persons rarely acquire complete ownership of the corporate satellite, preferring to use their insider knowledge to exploit the ambiguities of institutional co-ownership. Not uncommonly, these individuals are joined in mixed ownership by other joint stock companies and limited liability companies -- sometimes by independent companies, often by other KFTs in a similar orbit around the same enterprise, and frequently by shareholding companies or KFTs spinning around some other enterprise with lines of purchase or supply to the corporate unit (Voszka, 1990, 1991a; Stark, 1992). Banks also participate in this form of recombinant property. In many cases, the establishment of KFTs and other new corporate forms is triggered by enterprise debt. In the reorganization of the insolvent firms, the commercial banks (whose shares as joint stock companies are still predominantly state-owned) become shareholders of the corporate satellites by exchanging debt for equity.

We have used the term, corporate satellite, to designate this form of recombinant property. A more exacting terminology is cumbersome, but it reflects the complex, intertwined character of property relations in Hungary: a limited liability company owned by private persons, by private ventures, and by other limited liability companies owned by joint stock companies, banks, and large public enterprises owned by the state. The new property forms thus find horizontal ties of cross-ownership intertwined with vertical ties of nested holdings.

Recombinets. The recombinant character of Hungarian property is a function not only of the direct (horizontal) ownership ties among the largest firms and of their direct (vertical) ties to their corporate satellites but also of the network properties of the full ensemble of direct and indirect ties linking entities, irrespective of their attributes (large, small, or of various legal forms) in a given configuration. The available data do not allow us to present a comprehensive map of these complex relations. Records in the Courts of Registry include documents on the owners of a particular firm; but enterprises are not required to report the companies in which they hold a stake. However, on the basis of the enterprise level field research, examination of public records at the State Property Agency, and interviews with bankers and with consultants (who make it their business to know not just single firms but networks of firms) we have been able to reconstruct at least partial networks. Figure 3 is a stylized representation of such a reconstruction.

[Figure 3 about here.]

For orientation in this graphic space, we position Figure 3 in relation to the representations in Figures 1 and 2. Figure 1 presented inter-enterprise ownership networks formed through horizontal ties directly linking large enterprises. Figure 2 presented the corporate satellites arrayed around a single large holding. With Figure 3 we zoom in on a fragment of an inter-enterprise ownership network bringing into focus the ties that link corporate satellites to each other and that form the indirect ties among heterogeneous units in a more loosely-coupled network. The contrast to the patterns at Heavy Metal (from Figure 2) is immediately apparent. Whereas the concentric rings around Heavy Metal indicated a tightly integrated holding, simple even in its gigantism, here we see much greater complexity twisting into a different configuration.

We label this emergent form a recombinet, an appropriately hybrid term designating the hybrid phenomenon of a network of recombinant property. Here we see that the limited liability companies that began as corporate spin-offs are oriented through ownership ties at times to more than one shareholding company and, significantly, often to other limited liability companies. The recombinet is not a simple summation of the set of horizontal and vertical ties: to categorically label the ties between a given KFT and a given RT as 'vertical" would be to ignore the ways the KFTs are recombining properties. To the extent that genuinely network properties are emergent in the recombinet, the language of horizontal and vertical should give place to more appropriate descriptors such as extensivity, density, tight or loose coupling, strong or weak ties, structural holes, and the like (Granovetter, 1973; White and Breiger, 1975; Burt, 1992).

The existence of pervasive inter-enterprise ownership and the emergence of the recombinet organizational form suggests, moreover, that the proper analytic unit, because it is the actual economic unit of the Hungarian economy, is not the individual firm but a network of firms. The real units of entrepreneurship and of restructuring are not the individual personality or the isolated firm but the social networks in which previously unidentified resources are recognized and recombined. Property is already being reorganized along such lines; but such networks are not acknowledged in public policy. So long as the policy of privatization is based on getting the highest price for a set of assets already bundled in a given enterprise, and so long as the policies of restructuring and debt consolidation operate on a strictly firm by firm basis, so long will the network properties of the Hungarian economy be continually underutilized. Networks will remain shady as long as they remain in the shadows of official policy.

An East European Capitalism? As we have seen, there has been considerable property transformation in Hungary -- but little of it has resulted in decisive boundaries clearly separating public from private.[12] The fundamental analytic question at stake is not where to draw the boundaries of the private sector but whether the post-socialist economies can be adequately represented in a two-sector model. Almost every analytic stance and every policy position in the privatization debate shares this dualistic representation of public sector and private sector. That schema is not only inadequate but misleading, and policies based on it will yield distorted results. This analytic shortcoming cannot be remedied by more precise specification of the boundary between public and private: the old property divide has been so eroded that what once might have been a boundary is now a zone.

Perhaps the most ironic legacy of state socialism is that at precisely the time that political and economic actors are trying to free the economy from the grip of state ownership our thinking about property remains essentially Marxist: everywhere we are looking for the owner. But, as developments throughout the industrial countries suggest, property can be productively dis-integrated in ways such that different actors can legitimately claim rights to different aspects and capacities of the same thing (see, especially, Grey, 1980; Comisso, 1991). In such a view, transforming property rights is about renegotiating relations among a wide set of actors to resolve their claims over different kinds of property rights.

We should not be surprised, therefore, that reorganization in Eastern Europe is yielding new property forms that are neither statist nor private. The economies of East Central Europe are evolving in forms that are neither state capitalist nor market socialist. These are mixed economies not because there are state-owned firms and privately owned firms but because the typical firm is itself a combination of public and private property relations. What we find are new forms of property in which the properties of private and public are dissolved, interwoven, and recombined. Property in East European capitalism is recombinant property and its analysis suggests the

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[12] For a compatible view of blurred boundaries and interwoven property relations in China see Nee, 1992; Walder, 1994; and Cui, 1994 and forthcoming; on recombinant property in the Czech Republic see McDermott, 1993, and Stark and Bruszt, forthcoming.

emergence of a distinctively East European capitalism that will differ as much from West-European capitalisms as do contemporary East Asian variants.

From Destruction to Diversity

How are we to understand these unorthodox forms, these organizational "monsters" regrouping the seemingly incongruous? What are their causes and their consequences. ? Will they contribute to economic development or will they inhibit it? And what might we learn from them that would enrich and deepen our understanding of economic change more generally?

One starting point, ready-at-hand from the burgeoning literature on the "transitional" economies, would be to ask, "Do they contribute to creative destruction?" That litmus test is based on a widely-held assumption that economic development will be best promoted by "allowing the selection mechanism to work" through bankruptcies of underperforming enterprises. Recombinant property would not receive an unambiguously positive score measured by this standard. Indeed, the kinds of inter-enterprise ownership described above are classic risk-spreading and risk-sharing devices that mitigate differences across firms. By dampening the performance of the stronger and facilitating the survival of the weaker firms in the inter-enterprise recombinet, they might even impede creative destruction in the conventional sense.

But there is some question that a tidal wave of mass bankruptcies is a long-term cure for the post-socialist economies. With the catastrophic loss of markets to the East and with the stagnation of the economies of potentially new trading partners to the West, the depth and length of the transformational crisis in East Central Europe now exceeds that of the Great Depression of the inter-war period (see Kornai, 1993; Szelenyi, 1993). In such circumstances, an absolute hardening of firms' budget constraints not only drives poorly performing firms into bankruptcy but also destroys enterprises that would otherwise be quite capable of making a high performance adjustment (see especially, Cui, 1994). Wanton destruction is not creative destruction, goes this reasoning; and recombinant property might save some of these struggling but capable firms through risk sharing networks that do not require massive state bailouts (see below), Moreover, extraordinarily high uncertainties of the kind we see now in the post-socialist economies can lead to low levels of investment with negative strategic complementarities (as when firms forego investments because they expect a sluggish economy based on the lack of investments by others). By mitigating disinclinations to invest, risk-spreading might be one means to break out of otherwise low-level equilibrium traps.[13] Firms in the post-socialist transformational crisis are like mountain climbers assaulting a trecherous face, and the networks of inter-enterprise ownership are the ropes lashing them together.[14] Neo-liberals who bemoan a retarded bankruptcy rate fail to acknowledge how this mutual binding is a pre-condition for attempting a difficult ascent.

Economic development in East Central Europe does require more exit (some, indeed many, firms must perish) and more entry as well. But for destruction to be creative, these deaths must bc accompanied by births not simply of new organizations but of new organizational forms. Socialism failed not only because it lacked a selection mechanism to eliminate organizations that performed poorly but also because it put all its economic resources in a single organizational form -- the state enterprise. Socialism drastically reduced organizational diversity and in so doing prohibited a broad repertoire of organized solutions to problems of collective action. Organizational forms are specific bundles of routines and the reduction of their diversity means the loss of organized information that might be of value when the environment changcs (Hannan, 1986; Boyer, 1991; Stark, 1989, 1992). The relative paucity of organizational diversity in Eastern Europe gives added urgency to the question: where do (new) organizational forms come from?

Economic sociology has three dominant answers to this question. The first might be called "imperfect reproduction" as, for example, when an existing organization (or its former personnel) attempts to establish a new venture by reproducing a successful form but fails to perfectly encode the various bundles of routines that make up an organizational form. The resulting organizational mutant is quite likely to fail; but if it survives, a new organizational form might take hold in the ecology of organizations (Hannan and Freeman, 1986). The second answer is diffusion from outside a given sector or perhaps from outside the economy entirely. In the more sophisticated variant of this answer, organizational isomorphism occurs through mimetic processes when organizations imitate successful organizations in their field (DiMaggio and Powell, 1983). The third answer is "de-institutionalization." When legal or other rules that maintain boundaries between previously discrete populations of organizations are rclaxcd, the blurring of organizational boundaries engenders new organizational forms (Powell and DiMaggio, 1991; Hannan and Freeman, 1986).

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13 On strategic complementaries in the post-socialist economies see especially Litwack, 1994. On low-level equilibrium traps and the importance of risk spreading for economic development see Hirschman, 1958.

14 I am grateful to Claus Offe for suggesting this metaphor in comments on an earlier draft of this paper.

All three processes are at play in contemporary Eastern Europe. Imperfect reproduction, no doubt, occurs. But the slow rate at which it can contribute to change makes it of neglible importance in comparison with the second and third processes. As for diffusion, Western multinationals are entering the region in force, directly bringing new managerial practices that have strong indirect demonstration effects (Kogut, 1994). But the multinationals' contribution to organizational diversity should not be overemphasized. The danger that they will, like a foreign species that invades a fragile ecology, eliminate organizational diversity is possible only in the very long run since foreign direct investment is still only a small fraction of business activity even in Hungary, which remains the leader in the region. More worrisome is that foreign direct investment can fit too neatly into the existing monopolistic structure inherited from state socialism. Many western multinationals are all too eager to privatize state owned enterprises because of the inordinate market share that they command. Cigarette manufacturers, for example, are notorious for paying top price in exchange for state concessions that virtually guarantee monopolistic markets (Kasriel, 1993), and automobile manufacturers seek state subsidies, preferential credits, and strict import restrictions to reduce competition (Volvey, 1993). The new multinational's foot slips easily into the boot of the old socialist enterprise.

De-institutionalization, the third type of process of generating new organizational forms is also at work in contemporary East Central Europe: the overlapping of previously well-bounded populations of organizations was, in fact, taking place in the Hungarian economy throughout the 1980s. Most important for the current debate over property transformation were the broad economic, legal, and social changes that eroded the boundaries between state and private property. Whereas the communist <u>polity</u> had been based on eliminating the boundary between public and private, the state socialist <u>economy</u> had been built on an absolute barrier separating public and private property, sanctified in a rigid hierarchy of collective, cooperative, and private property forms. These absolute barriers were crossed first in agriculture in the late 1970s with the blurring of boundaries between the property of the cooperatives and those of the household plots (Szelenyi, 1988). By 1982, boundaries between state and private property were being eroded in even the most advanced sectors of Hungarian manufacturing. With this de-institutionalization came greater organizational diversity as the population of organizations in the "second economy" now overlapped with the population of socialist firms. The most prominent new organizational form was a hybrid property form, the intra-enterprise partnership (or VGMK), in which semi-autonomous subcontracting units used enterprise equipment to produce goods or services during the "off hours" (Stark, 1986, 1989). Modified in their migration from agricultural to manufacturing, these "household plots of industry" had no rights to dispose of assets, but they did have a claim to the use of equipment during parts of the day/week. Moreover, the "partnerships" had captured significant rights over residual income (their "entrepreneurial fccs" not uncommonly cxcccdcd managcrial earnings) and enjoyed significant rights of control ("From 6 to 2 we work for them; from 2 to 6 we work for ourselves," went the common expression).

Thus, as the partnerships spread to virtually every socialist enterprise and eventually involved more than ten percent of the industrial labor force, a good part of Hungary's managerial stratum had some practical experience with an organizational form of a hybrid property character. In fact, in the field research conducted for this study I repeatedly encountered new corporate satellites (the KFTs) that are the literal organizational successors of the earlier subcontracting partnerships (the VGMKs).

Where they were not the direct organizational predecessors, the partnerships were, nonetheless, organizational precursors of the present recombinant forms. The partnership members were the consumate bricoleurs, making do with what was available. Within the VGMK, they regrouped resources from diverse parts of the shopfloor and regrouped, as well, the informal norms of reciprocity with the technical norms of the professional. Because the intrapreneurial units were not hierarchically designated but left to self-organization, membership criteria attempted to combine within one unit personnel with different types of assets -- political capital, social capital, technical skills, managerial capacities, etc. -- in such a way that the value of their collective capital exceeded the sum of their individual qualifications (for details, see Stark, 1989). As such, they could bid for jobs across factory units. And the more fluid division of labor within the unit further made it possible for them to underbid the parent enterprise for contracts with outside partners.

Some of the partnerships were scarcely disguised rent-seeking schemes that privatized profit streams and left the expenses with the state-owned enterprise. Others would have been a surprise and perhaps delight to Schumpeter, who would have marvelled at entrepreneurs <u>inside</u> a <u>socialist</u> firm. We might say that these partnerships "identified" new resources; but this would suggest that the resource was simply bidden or underutilized and only needed to be uncovered. In fact, before recombining resources, they first had to redefine resources -- to see in a relation, an object, a process, something of value (for examples, see Stark, 1990a). Recombining property requires redefining the properties of things. This ability to see a resource where none was marked before, to see something in a different guise, to re-cognize, was grounded in an acute organizational reflexivity. That reflexivity arose from the elemental fact that the partnership members lived, on a daily basis and within a single physical, technological, and social setting, in a multiplicity of organizational forms based on fundamentally different principles.

This brief overview of thc partncrship form together with our knowledge of the recombinant forms of the present transformation suggests another answer to the question "Where do (new) organizational forms come from?" We should expect to find new organizational forms being generated not only where routines mutate, or where organizations interact, or where populations overlap, but also where social orders collide.

For a Sociology of Worth

The notion of a social order has been so impoverished in its recent re-introduction by rational choice theorists that some elaboration is required here. When I use the term, I have in mind a concept quite different from the description of an equilibrium world of social control in which actors' individual interests are held in check by their mutually suspicious monitoring (Hechter, 1987; Hechter and Kanazawa, 1993). Economic sociology has resisted colonization by the rational choice movement. In contrast to its decisionist bias, organizational ecology emphasizes routines (Hannan and Freeman, 1989) and the new institutional sociology stresses cultural scripts (Powell and DiMaggio, 1991); in contrast to its presentation of individual action guided by rational choice and economic calculus, the school of embeddedness (Granovetter, 1985) presents actors connected in multivalent social relations. But the alternatives to the rational choice model have not entirely broken free from the division of labor outlined in the pact that Talcott Parsons made with the economists of his day (Camic, 1988): You (the economists) study value, and we (the sociologists) study values; you study the economy, and we study the social relations in which economies are embedded. Economic Sociology should break with this pact. Property is not a domain that can be claimed by legal scholars, and economics has no privileged access to the analysis of assets.

At the basis of a social order is the problem of worth. An ordering assigns relative standing based on a standard of evaluation: At the same time that it provides a measure of social size, a social order addresses the fundamental question of what can constitute a valued asset (Boltanski and Thevenot, 1991). To analyze this problem, a sociology of worth must be non-reductionist: There are no assets independent of social ties; and there are no ties independent of principles of association; yet neither ties nor principles can be reduced to the other (for a similarly non-reductionist formulation, see Latour, 1988). This conception of assets and networks goes beyond the notion that network ties can be assets (see, for example, Bourdieu (1986) on "social capital," or Burt (1992) on "network capital") to argue that all assets have network properties because an asset is only mobilizeable in and through a network of social relations. But assets cannot be reduced to ties among persons. To be able to circulate through the ties that bind (and thus contribute to that binding) an asset must. be bound in a network of measuring instruments, tests, and proofs of worth.[15]

To emphasize the patterned and the performative aspects of this process, I exploit a **notion of** accounts. Etymologically rich, the term simultaneously connotes bookkeeping and narration. We keep accounts and we give accounts. Both dimensions entail evaluative judgements, and each implies the other: Accountants prepare story lines according to established formulae, and in thc accountings of a good story teller we know what counts. The literary critic, the moral philosopher, and the accountant are all engaged in a systematic search for value. These specialized professions, however, are just a starting point. More important for the sociology of worth is the basic social condition that we can all be called to account for our actions. When we make such an accounting, we draw on and reproduce social orders. We can competently produce justifications only in terms of established and recognized ordering principles, standards, and measures of evaluation. Because we do not simply give reasons but also have reasons for doing things, accounts are not simply retrospective; the imperative of justification structures what we do and not simply how we explain. We can never merely "calculate" because we must do so with units and instruments of measurement that are deeply structured by accounts of what can be of value. We reproduce these units of measurement and we recalibrate the measuring instruments when we assert our worthiness, when we defer to the "more worthy," or when we denounce their status according to some other standard of evaluation. When we give an account, we affirm or challenge the ordering criteria according to which our actions (and/or thosc of others) will be evaluated at some point in the future. And it is always within accounts that we "size up the situation," for not every form of worth can be made to apply and not every asset is in a form mobilizable for the situation. We evaluate the situation by manuevering to use scales that measure some types of worth and not others thereby acting to validate some accounts and discredit others.

A social order, then, is the intersection of ties and accounts, of networks and social fol-111s. Ties mobilize accounts; they transport accounts across settings through networks of affiliation. Accounts mobilize ties: they link social beings in orders of worthiness with measuring instruments that inscribe value (Latour, 1988; Boltanski and Thevenot, 1991; White, 1992a). A given property (a potential resource) becomes

[15] There are no free floating resources. Assets require a prior and ongoing work of investment in forms (Thevenot, 1985) through which links are established among cognitive categories to give the form enough durability to be transportable across situations (Latour, 1988; Boltanksi and Thevenot, 1991).

an asset only insofar as it is embedded in the ties and accounts of a social order. Yet modern societies are never a single social order but a complex interweaving of ordering principles.

Thus, if the hybrid organizational forms of late socialism result from the overlapping of once discrete populations of organizations, the recombinant property forms of postsocialism result from the overlap of principles of organization. If the members of the intra-enterprise partners were regrouping assets, the managers of the inter-enterprise recombinets are regrouping principles of association. Or, more accurately, both of these new types of hybrids involve rearranging social ties and regrouping social forms. New organizational forms are new interweavings of social orders. In the world of recombinant property, organizing entails manuevering not only through an ecology of organizations but also through a complex ecology of orders.

The Multiple Accounts of Recombinant Property

To analyze the multiple accounts of recombinant property requires a distinction between risk -- which is in principle calculable and can thus be expressed in the lanaguage of probability -- and a more fundamental, though diffused, uncertain@ about the organizational environment (for the classic statement, see Knight, 1921). In transformative economies, firms have to worry not simply about whether there is demand for their products, or about the rate of return on their investment, or about the level of profitability but also about the very principle of selection itself. Thus, the question is not only "Will I survive the market test?" -- but also, under what conditions is proof of worth on market principles neither sufficient nor necessary to survive. Because there are multiply operative, mutually co-existent principles of justification according to which you can be called on to give accounts of your actions, you cannot be sure what counts. Transformative economies are acute cases of ambiguities of value, of evaluation, of worth. By what proof and according to which principles of justification are you worthy to steward such and such resources? Because of this uncertainty, actors will seek to diversify their assets, to hold resources in multiple accounts.

A possible candidate for a term to refer to this learned ability to glide among coexisting accounts in response to this kind of environmental uncertainty would be organizational hedging. But I have to emphasize that this is not the same kind of hedging to minimise risk exposure that we would find within a purely market logic -- as, for example, when the shopkeeper who sells swimwear and sun lotion also devotes some floor space to umbrellas. Instead of acting within a single regime of evaluation, recombinant property is organizational hedging that crosses and combines disparate evaluative principles. Recombinant property is an attempt to have resources in more than one organizational form -- or, similarly -- to produce hybrid organizational forms that can be justified or assessed by more than one standard of measure. Thus, perhaps it is better if we think about recombinant property as a kind of portfolio management. And adopting this metaphor, we see actors clearly attuned to the first dictum of a good portfolio manager: diversifv vour holdings!

The adroit recombinant agent in the transformative economies of East Central Europe differs from the diversifying fund manager in the West who with a known and single measure of value -- money -- puts that known and measureable resource here into stocks, there into t-bills and money markets, there into bonds. Actors in these transformative economies diversify holdings in response to more fundamental uncertainties about what can constitute a resource. Under conditions not simply of market uncertainty but of organizational uncertainty, there can be multiple (and intertwined) strategies for survival -- based in some cases on profitabilitv but in others on eligibility. Where your success is judged, and the resources placed at your disposal determined, sometimes by your market share and sometimes by the number of workers you employ in a region; sometimes by your price-earnings ratio and sometimes by your "strategic importance"; and when even the absolute size of your losses can be transformed into an asset yielding an income stream, you might be wise to diversify your portfolio, to be able to shift your accounts, to be equally skilled in applying for loans as in applying for job creation subsidies, to have a multilingual command of the grammar of credit worthiness and the syntax of debt forgiveness. To hold recombinant property is to have such a diversified portfolio.

The Centralized Management of Liabilities

Portfolio management, in the sense of manuevering among multiple accounts as outlined above, must manage not only assets but also liabilities. This elemental concept that property embraces liabilities as well as assets has been almost entirely neglected in the now vast literature on privatization with its myopic focus on the distribution of rights and assets.[16] In that debate, the worlds of the public and the private are lexically bounded. The realm of the private is a world of assets and rights; the realm of the public is a world of liabilities and obligations. This lexical separation has two causes. First, it is shaped by an intellectual division of labor in which one specialization -- theorists of privatization and property rights -- hold claims to one

[16] The exceptions typically focus on environmental liabilities and the difficulties they pose for the process of privatization. My previous work is nut exempt from this criticism; the term liability never appears in two extended discussions of privatization in Eastern Europe (Stark, 1990, 1992).

triad (private/assets/rights) while the analysis of the other triad (public/liabilities/obligations is left to specialists in credit policy and public finance. Second, it reflects underlying processes in the post-socialist economies themselves. All too often privatization actually is an attempt to organizationally separate assets from liabilities. Moreover, this institutional separation of rights and obligations occurs not only at the moment of privatization but can continue well after the assignment of property rights. As Frydman and Rapaczynski (1994) persuasively demonstrate, privatization in itself provides no guarantee that private actors will not attempt to hold up the state.

The following section analyzes what happens in a post-socialist economy when actors are called to account for enterprise debt. As we shall see, these accountings bring into our focus a broader circle of actors including bankers, policy makers, and political parties as well as the enterprise directors whom we have already seen managing their assets in multiple accounts. To understand the intertwined strategies for managing liabilities we will need to explain how the Hungarian government, under the nationalist-conservative leadership of the Hungarian Democratic Forum launched a massive 300 billion forint (US $3 billion) "debt consolidation" program amounting to 10 percent of Hungarian GDP and 18.3 percent of the projected 1994 national budget.[17] At the conclusion of that analysis we shall see how this governmental attempt at the centralized management of liabilities stimulated actors at the enterprise level to complement their strategies of recombinant risk-spreading with new strategies of risk-shedding.

Taking: the last small steps. The liabilities' management story begins in 1991 when the Hungarian government, within the time frame of only a few months, fundamentally modified three important pieces of legislation regulating the accountings of assets and liabilities: the Law on Standard Accounting Practices, the Bankruptcy Act, and the Law on Banking were all brought into correspondence with western practices. By 1991, the heady days of 1989, when communist regimes had toppled like dominoes across the region, seemed like the distant past. Now the young democracies of East-Central Europe were competing for foreign direct investment and support from the IMF and the World Bank. Actual levels of foreign direct

[17] To put this figure in perspective, for the United States the $105 billion savings and loan bailout represents 1.6 percent of GNP and 7 percent of the projected 1995 federal budget. Venezuela's recent $6.1 billion bank bailout is on a magnitude with the Hungarian program representing 11 percent of Venezuela's gross national product and 75 percent of the government's 1994 national budget (Brooke, International Herald Tribune, May 17, 1994).

investment were small when compared to the needs,[18] but the stakes for the future were big. And Hungary seemed the undisputed leader, garnishing as much foreign investment as the other countries in the region put together.

To maintain and perhaps even extend that lead, the government reasoned, Hungary should build on its comparative advantage. Hungary had not needed the shock therapy that brought Poland's hyperinflation under control (and brought Leszek Balcerowicz to the spotlight), and it lacked a charismatic figure such as the Czech Republic's Vaclav Klaus who captured attention when he lectured Western leaders on the virtues of free market liberalism. Hungary's advantage was the gradualism which across the decades of the 1970s and 1980s had brought it a full-range of market-like institutions. These were admittedly not the institutions of a market economy, but they were close; and so, the government reasoned, why not take the last steps? To keep the lead in the regional competition, and to lead the nation to a fully-fledged market economy, the government would re-write the laws to conform with Western accounting and banking standards.

Thus, the new Accounting Law of 1991 (which took effect on January 1, 1992) required enterprises to switch to Western-style accounting principles. A tough new Western-style Bankruptcy Act (also implemented on January 1, 1992) contained stiff personal penalties for directors of enterprises that failed to file for bankruptcy after the accountants (using the new measuring instruments) sounded the alarm. Similarly, although with some gradualist steps built in, the new Act on Financial Institutions introduced in December 1991 was designed to put Hungary's commercial banks on a Western footing. In particular, the reserve requirements for measuring capital-adequacy ratios were modified and the securities and other financial instruments for provisioning against qualified loans were respecified. According to international banking practices, banks must set aside funds to provision against outstanding loans that it suspects will not be paid in full. In the new Hungarian banking law, a loan is qualified as "bad" if in default for more than a year or if the debtor has filed for bankruptcy. In this categorization, "bad" is the worst, and the loan must be provisioned at 100 percent of its face value. "Doubtful" loans are those in default for more than 60 days, or where the debtor has reported losses for two consecutive years, and must be provisioned at 50 percent. Loans are qualifed as "substandard" and

[18] In the first two years after the regime changes, approximately $3 billion in foreign direct investment flowed to Czechoslovakia, Hungary, and Poland. To put that figure in perspective, in the same period, the campaigns to increase the capital endowments of Harvard University, Stanford University, and Cornell University totalled approximately the same $3 billion figure. Harvard, Stanford, and Cornell are major universities, but about 64 million people lived in Czechoslovakia, Hungary, and Poland.

require 20 percent provisions where the bank holds claims against companies in crisis sectors.

The last small steps proved to be a leap into the abyss. Already reeling from the collapse of the CMEA markets, enterprise directors now learned from their accountants that the new accounting practices were coloring the companies' books even redder than expected. By the end of 1992, over 10,000 bankruptcies and liquidation proceedings had been initiated -- a figure ten times higher than during the previous year when enterprises had experienced the worst shock of the collapsed Eastern markets (Bokros, 1994).[19] With one-third to one-half of enterprises in the red (Piper, et al, 1994) the loss-making firms began to stop payment on their bank credits. By the end of 1992, the overdue loan stock of the banking system was Ft 127 billion, up 90% from the previous year (National Bank of Hungary, 1992:109).

With thousands of firms filing for bankruptcy, the banks were forced by the new banking law to reclassify loans from doubtful to bad. The subsequently dramatic increase in provisionings cut deeply into bank profits -- reducing taxes from the financial sector and eliminating the dividends the state received from its shares in the large commercial banks. In 1990, the banks' profit margins had been high enough for taxes and dividends from the financial sector to constitute 7.6% of fiscal receipts (Ábel and Bonin, 1993). These had been paper profits, to be sure, produced by the old accounting and financial standards; but to the state they had been real revenues all the same. Thus fiscal planners were stunned when revenues and dividends from the banking sector for 1992 totalled only 2 billion forints instead of the 64 billion forints estimated a year earlier.[20]

The banks' scramble to improve their balance sheet structures and the state's scramble to finance its skyrocketing deficit interacted to cause further deterioration in the structure of lending: Banks curtailed investment credits to enterprises in favor

[19] Filings for bankruptcy and liquidation continued to pour in at a high rate in 1993 but has begun to turn down in 1994. Yet, although the number of new filings for bankruptcy is declining, the number of firms actually liquidated is increasing as the courts are beginning to make a dent in the huge backlog of filings from 1992-93. To understand the magnitude of 10,000 filings for bankruptcy and liquidation in a small economy such as Hungary's, in roughly the same period (mid-1992 to mid-1993) there were only 993 bankruptcy filings in the Czech Republic where policy-makers had crafted a stringent bankruptcy law whose implementation has been twice postponed (Brom and Orenstein, 1993).

[20] Personal communication from László Antal, Hungarian Foreign Trade Bank.

of buying Treasury bills and lending to the state.[21] Nonetheless, the banks continued to lend to their client-owners, the formerly state-owned enterprises that held shares in the banks -- acquired in the days when the newly established commercial banks were looking for corporate shareholders who could offset the weight of the Ministry of Finance. For the enterprises, owning shares in a profitable bank promised high dividends and a steady flow of credit: a "no-lose" situation, especially in the many cases when the purchase of large amounts of bank equity were directly financed by credit from the same bank (Bokros, 1994). Caught in the squeeze were the small and medium-size start-up ventures upon whom many laid hopes for the revitalization of the economy: small entrepreneurs received less than 9 percent of total investment credits to the business sector in 1992 (National Bank of Hungary, 1994:95, Table. IV/3). As the large commerical banks raised interest rates to cover an increasingly shaky loan portfolio, profitable Hungarian firms began to turn abroad (or to foreign-held banks) for investment financing. Their desertion of the Hungarian banks could only worsen the risk structure (Ábel and Bonin, 1993). The banks responded by widening the spread between lending rates and deposit rates[22] -- triggering more defaults and bankruptcies requiring, in turn, higher levels of provisioning in desperate attempts to keep capital-adequacy ratios from falling into the deep negatives. Spiralling away from its function of financial intermediation, the banking system was in crisis.

That crisis was announced, less than a year after Hungary's bold leadership in adopting western-style accounting, bankruptcy, and banking practices, in the pages of the Financial Times (Denton, 1993a, 1993b). Hungary's three top banks were technically insolvent: Instead of capital-adequacy ratios of 4% or 8% that would put them within reach of international standards, these banks were in the -4% to -8% range.

Big bailouts. The same government that had launched an unintended financial shock now launched a bold plan to save the banks. In its 1992 loan consolidation program the government bought 104.9 billion forints (about $1 billion) of qualified debt

[21] Whereas loans to the government were only 7.2 percent of the banks' total loan portfolio in January 1992, they rose to 22 percent by December 1992 and to over 30 percent by November 1993, with loans to enterprises falling from 74 percent to only 52 percent over the same period (National Bank of Hungary, 1994:95 Table IV/2).

[22] In January 1992, the spread was 6.6 (the difference between the average lending rate of 36.0 percent and average deposit rates of 29.4 percent to the business sector). By August of the same year lending rates had fallen to 32.0 percent, but deposit rates had dropped to 18.9 percent -- for a spread of 13.1 (National Bank of Hungary, 1994:99, Table IV/7).

(almost all in the "bad" debt classification) involving 14 banks and 1,885 companies." In a related move in early 1993, the government also purchased the bank debt of eleven giant enterprises (the so-called "dirty dozen") for roughly $300 million. The loan consolidation and enterprise recapitalization programs, it seemed, had restored stability in the banking sector. Yet, by September 1993, only nine months later, financial experts were estimating that qualified loans (for the greater part, bad loans) had once again soared to 20 percent of total loan portfolios. And the ten largest banks were again hovering at or below the zero percent capital-adequacy ratio (technical insolvency).[24]

What had happened? Banks had treated the government bonds as broad money. Instead of provisioning, many banks had used these funds to continue making loans to loss-making enterprises. Piper et al (1994) provide a trenchant assessment: "The 1992 loan consolidation program did nothing to change the incentives that lead to the creation of bad debts in the first place. The same owners, the same governing boards, the same managers, and the same bankers had the same roles within the banks under the same operating constraints." We might go further. The precedent of a bank bailout in which the government bought only bad loans set up a perverse incentive to the banks for reclassifying doubtful and substandard loans.

The new accounting, bankruptcy, and banking rules had not caused the economic crisis -- for that we can find straightforward explanations in the structural features of the state-socialist economy -- but they had shaped the particular forms in which that crisis was manifested (for example, that the crisis of the enterprises and the fiscal crisis of the state were immediately translated, within the space of only a few months, into a massive crisis of the financial sector). The new accounting technologies, moreover, shaped the resources with which actors played their strategies during the crisis. New banking rules made new accountings possible, and there was no rule that the state could not bail out the banks again.

That is exactly what the government did when it announced a new bank recapitalization/debt consolidation program in the late Fall of 1993. The new

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[23] In exchange for the debt, the banks received 20-year government bonds, and about 40 percent of the debt was transferred to the newly created Hungarian Investment and Development Bank, which, most analysts agreed, was unprepared for the difficult task of collecting the loans.

[24] By the end of 1993, these ten banks, accounting for 90 percent of all credit extended, were expected to hold 316 billion forints of poorly performing debts and other investments representing "roughly 35 percent of total loans to households and enterprises (compared to bad debts to total loans averaging 3 percent in the West)" (Piper, et al, 1994).

program was not, however, a simple replay of the 1992 bailout but involved new methods and justifications. Whereas in the earlier program the government had bought the bad debt directly from the banks, in the new program it adopted a multi-phase approach first of recapitalizing the banks[25] and then later negotiating the workout of the particular loans that composed the qualifed debt. The significance of these methods must be understood in terms of the new justifications offered for the new bailout. To justify the 1992 loan consolidation program, the government had argued that these were bad debts inherited from the old regime. But that justification had become untenable when, instead of getting better, the debt crisis worsened after the first bailout. By 1993, the financial crisis could no longer be blamed on past practices. Therefore, methods and justifications had to be adjusted to address current practices.

Instead of liberation from the past, the slogan of the new consolidation program became, "Assets liberated from liabilities can be more productive." If this was to be anything more than a truism, of course, the question was how to identify assets that could be performing from those which were worthless under any circumstances. The answer was to rely on the banks as the primary repository of information about the true health of Hungarian enterprises. Reliance on the banks, however, could not be unequivocal since it was the current practice -- the imprudent lending -- by those same banks that was pushing the crisis toward the precipice.

The two-stage strategy (recapitalization first, workouts later) was designed to harness the expertise of the banks to the service of the state. Because it was not buying debt, but injecting fresh funds into the banks, the new "investor" would acquire shares in the banks (already transformed into shareholding companies before the regime change). And because the sums were enormous, the new shares would yield a controlling interest. In this way, the Ministry of Finance became the dominant, even majority shareholder of the large commercial banks. The first stage of the strategy, then, could be summarized in a phrase: Don't acquire the debt; acquire the banks. Or, less euphemistically, re-nationalize the banks. Because it was the banks, and not the state, that would be left holding the qualified debt, the banks would have an incentive to collect that debt, or at least the part they had not already written off their books. And they would do so, this time, not with the state as their sometime partner but with the state as their majority owner.

[25] Recapitaiization was to occur in two waves, the first in late 1993 to bring capital-adequacy ratios to zero, the second in the Spring of 1994 to raise these ratios to 4 and 8 percent for selected banks.

But efforts to exercise control through direct ownership do not equal more effective state capacity. If we need evidence for that we could turn to several decades of state socialism, or we can look at the second stage of the debt consolidation program in which the state and the banks were supposed to negotiate the workout of particular loans.

At the beginning of 1994, the government slated 55 firms for immediate work-out just months before the parliamentary elections held in May. The firms were to draw up and submit business plans. The banks could accept the plans; but if they rejected them, the firm could still be saved from liquidation if the State Property Agency (SPA) elected to buy the debt. Most bankers agreed that the business plans -- hurriedly thrown together, with only a few weeks of preparation -- were of poor quality. In one revealing exchange, an official at the State Property Agency called a banker to inquire about the status of the business plans the bank had just received from six firms in the SPA's portfolio. The banker, who had just read the mountain of thick documents on his desk, responded that these weren't serious business plans. Each could have been summarized in one sentence, "Please forgive our debts." In that case, responded the privatization official, perhaps the bank could write up new business plans, adding that it was, after all, the creditor, and who could know more about the companies? The banker, expressing his reluctance to draw up one set of numbers in the morning and approve them in the afternoon, countered that perhaps the SPA should draw up the plans because, after all, who should know more about a company than its owner? The enterprise directors, meanwhile, were puzzled by all this fuss about business plans. The selection of the "55" just months before the election had been made on political grounds and the decisions about them, it was thought, would be political as well.

In this way, through endless rounds of meetings, some small number of the plans were accepted by the banks, some small number were rejected by all and allowed to fail, and for the greater number, the banks entered negotiations with the SPA, which, we recall, had the option to buy the debt from the bank in cases where the bank refused to accept the firm's workout plan.

At what price should the SPA buy the debt? Clearly at a considerable discount since this was qualified debt already provisioned in proportion to its level of qualification (bad, doubtful, substandard) by the terms of the recapitalization program. To "apply" for that program, banks had been required to produce a list of qualified loans, the categorization of each (with the corresponding figure indicating the funds needed to provision that loan), and a bottom line summing the reserves it would set aside if accepted to participate in the program. This time, the government was determined both to avoid the perverse incentives created by buying only "bad" loans and to insure that rccapitalization would restore banking health rather than further finance loss-making enterprises. Nonetheless, and despite the hundreds of billions of forints of taxpayers' money at stake, the Ministry of Finance and other state agencies saw only the bottom line of the application -- accompanied by an auditor's certification that this figure was an accurate summation of the enumerated loans.

Thus, if a loan had been classified as "substandard" and provisioned through the recapitalization program at 20 percent of its face value, it would seem reasonable that it should not be sold to the SPA for more than 80% of its face value; "doubtful" debt at 50 percent; "bad debt" at next to nothing. But there was nothing to stop the bank, at this point, from modifying the classification of a particular loan -- and so a loan categorized as bad when applying for recapitalization funds could become only doubtful when negotiating to sell it. That is, the bank could have a bad loan provisioned at 100 percent in the recapitalization program and then turn around and try to sell it as a doubtful loan for 50 percent of its face value. And when the SPA called the bank's hand, the bank responded that the interim upgrading was not arbitrary but based on "new information": the business plan -- that the bank was rejecting.

In the end,[26] and to the great relief of the World Bank officials overseeing it, the program was spared the expensive farce of the state paying for debt twice over (once through the recapitalization program, again through an SPA debt purchase): the SPA simply did not have the cash. During the nine months leading up to the May election, the SPA took in little revenues. As part of the government's electoral strategy, the agency began to favor domestic over foreign buyers, to extend cheap credit, to accept installment payments, and to actually give property away in the form of "compensation" vouchers. During the same time, funds flowed into the governing parties' "foundations," scarcely disguised campaign treasuries. But the Hungarian electorate was clearly looking for an alternative, voted Socialist, and got a new Socialist-Liberal coalition government. That government promises an enterprise restructuring program that "will rely more on the banks."

But, as the previous discussion already suggests, the government might not find a very reliable partner in banks that are already sitting atop billions of fresh capital. With their balance sheets back in the black, the banks are not now disposed to develop creative solutions. First, provisioning has made the banks less than aggressive in pursuing liquidations. To be sure, too many liquidations all at once would hurt not only their balance sheets but would also harm the national economy. In fact,

[26] Or more accurately, near the end -- because, as of this writing, the exact fate of the "55" has still not been determined.

however, the opposite problem is the more likely: with their reserve requirements (temporarily) secure, the banks will allow liquidation procedures to drag out for years through the bankruptcy courts as thousand of enterprises experience an agonizingly slow death, all the while making nothing but losses. Moreover, despite the assumption that the Ministry of Finance's ownership would yield control of the banks, the government has been almost entirely ineffective in monitoring how the banks use the recapitalization funds, and it is doubtful whether the new coalition government will be more successful. Thus, during the protracted liquidations, there is little to prevent the banks from extending loans to continued loss-makers.

Second, to date, the banks have shown almost no willingness to use the consolidation funds for actively restructuring firms. The institutionally youthful Hungarian banking community takes its cues from New York City: the "glamour" jobs are in bonds and securities, and there is not yet an established career pattern for an ambitious and energetic young banker who would like to chalk up a track record of sucessful "turnarounds."[27] Yet this is exactly what must happen if the network properties of assets are to be recognized and creatively recombined in new configurations. Compared to the passive stance of waiting for a liquidation, restructuring is time-consuming and difficult. It is also much more risky. The banks are unlikely to adopt such a strategy if left only to their own devices.[28]

Returning to the present, what has happened to date with the second phase (debt consolidation at the enterprise level) of the 1993/94 program? While negotiations for the list of "55" were underway, the government announced that the second round of debt resolution would not discriminate by property form: virtually any enterprise (under state, private, or mixed ownership) could apply to participate in the program. By the deadline at the end of June 1994, some 2,000 enterprises had submitted plans

[27] The outlook is not entirely gloomy. One of the largest commercial banks has established a new workout unit. With solid leadership, the unit shows signs of attracting talented personnel with a strong committment to active restructuring.

[28] One proposal currently being discussed is for the creation of a new "development agency" differentiated both from the "ownership" agencies (the soon to be recombined SPA and ÁV-Rt) and from the banks. It would also differ from the already established Hungarian lnvestment and Development Bank (a misnomer since the institution is simply a glorified collection agency). The task of the new agency would be to work with banks to create incentives for restructuring. Implicit in the proposal is a reversal of the sequencing of the 1993/94 program: instead of receiving fresh funds first and then doing little by way of restructuring, banks and enterprises would have to demonstrate creative solutions before receiving any financial assistance in restructuring. To be successful, the new agency would have to tread the thin line between facilitating risk management and promoting risk-shedding.

to the consolidation commission. The initial reaction by bank officers, government officials, and observers in the World Bank was puzzlement: tempted by the lure of a bail-out of unprecedented proportions, why had so few enterprises applied?[29] The designers of the program cautiously offered an interpretation with a decidedly positive spin. Enterprise directors, they argued, had correctly read the signals being sent out about the negotiations for the list of 55, "Don't apply if you can't take the heat -- this program is not a giveaway." But other interpretations can be provided to understand why so relatively few enterprises applied. We offer four such explanations, none of whose colors are particularly rosy.

1) Faced with an opportunity to workout debt and put their companies on a course toward more sound financial management, many enterprises simply lacked the basic knowledge, background, and competence to prepare even the most minimal business plan.

2) Faced with an uncertain process, some enterprises assessed the potential gains against the risk that thc proccdurc would culminate in a decision to force the liquidation of the firm. Instead of formal application, they felt that the prospects for successful access to the state's deep pockets were better if they continued to use informal back channel bargaining ties to other ministries and agencies.

The following explanations break with the assumption (implicit in the first two explanations) that, however incompentent or conniving, senior management identifies with the indebted enterprise.

3) Some senior managers are simply not interested in the financial health of the enterprise which they currently manage. In fact, they have already adopted strategies to strip that firm of its assets (perhaps through leasing, pricing, or rental arrangements with KFTs in which they hold control) or to purposefully drive the firm into bankruptcy when they can then use their insider knowledge to acquire it on the cheap. Formal application to the debt consolidation program would ruin such strategies.

4) Some loans, perhaps many of the qualified loans to private enterprises in the pool of potential applicants, were not taken out with the aim of investing in the enterprise named in the loan. Application for debt-forgiveness was out of the question because

[29] Although no official figures have been released, knowledgeable sources in the financial community estimate that only 15-25% of the potential pool of qualified loans have made an application to the program.

it would bring the conditions of the loan and the uses of its funds under direct scrutiny.

Support for this fourth explanation comes from a recent internal analysis, by one of the large commercial banks, of the qualified loans in one of its divisions. The loans (most of them qualified as bad debt) totalled 3.8 billion forints ($38 million) to some 45 companies. Remarkably, 33 of the named enterprises were no longer operating (and some perhaps never were), yet neither had they been liquidated nor had the bank initiated bankruptcy proceedings. The firms had simply stopped paying the loan and gone out of existence. 39 of the loans to enterprises had been made during 1990-91 (i.e., just after the regime change) and contained gaping irregularities. For example, the bank had secured no collateral for 24 of these loans, and many had been granted without authorization of the bank's Credit Committee,

What had happened to these funds? Some of these loans, no doubt, were taken out with no intended business purpose (consumption, "black" activities, etc.). Others, the bank's analysts suspect, were used to acquire state property through the privatization program. In some of these cases, the debtor might have taken out the loan with an intention to capitalize an independent venture but, after observing that a new start-up is much more vulnerable than an already existing company, later used the money from the loan for the cash down payment to acquire a state-owned firm in a related field. For others, the target of privatization had already been identified at the time of the loan application. But in both types of fraud, a loan used for privatization was not a liability on the books of the privatized company but was on the books of a bankrupted limited liability company with no assets that the banks could claim. This is looting, a Hungarian version of "bankruptcy for profit" (Akerlof and Romer, 1993).

Adaptability and Accountability

Recombinant property is, thus, produced in two simultaneous processes. Accompanying the decentralized reorganization of assets is a centralization of liabilities. Both processes blur the boundaries between public and private. On the one hand, privatization produces the criss-crossing lines of recombinant property; on the other, debt consolidation transforms private debt into public liabilities. Together these twinned moments of property transformation create a new basis of paternalism in Hungary. Whereas in the state socialist economy paternalism was based on the state's attempts at the centralized management of assets, in the first years of the post-socialist economy paternalism is based on the state's attempts at the centralized management of liabilities.

In the highly uncertain organizational environment that is the post-socialist economy, relatively few actors (apart from institutional designers) set out with the aim to create a market economy. Many, indeed would prefer if such were the outcome. But their immediate goals are more pragmatic: at best to thrive, at least to survive. And so they strive to use whatever resources are available. That task is not so simple because one must first identify the relevant system of accounting (the measuring instruments and the justificatory principles) in which something can exist as a resource. At the extreme, it is sometimes even difficult to distinguish a liability from an asset. If the liabilities of your organization (enterprise or bank) are big enough, perhaps they can be translated into qualifications for more resources. And what could be more worthless than a bankrupted limited liability company – except, of course, if you have shed the risk to the banks (and then to the state) and put the assets in another form. And so actors diversify their portfolios because they are not sure what counts, they measure in multiple units, they speak in many tongues. In so doing, they produce and reproduce the polyphonic discourse of worth that is post-socialism.

We can see that polyphony in the diverse ways that firms justify their claims for participation in the debt-relief program. The following litany of justifications are stylized versions of claims encountered in discussions with bankers, property agency officials, and enterprise directors. The Hungarian reader will perhaps recognize specific firms:

Our firm should be included in the debt relief program because we will forgive our debtors.[30]
Our firm should be included in the debt relief program because we are truly credit worthy.[31]
Because we employ thousands.
Because our suppliers depend on us for a market.
Because we are in your election district.
Because our customers depend on our product inputs.
Because we can then be privatized.
Because we can never be privatized.
Because we took big risks.

30 I.e., our firm occupies a strategic place in a network of inter-enterprise debt.

31 I.e., if our liabilties are separated from our assets, we will again be eligible for more bank financing. Explanations could be provided for each of the following justifications, but the reader will be spared this tedium.

Because we were prudent and did not take risks.
Because we were planned in the past.
Because we have a plan for the future.
Because we export to the West.
Because we export to the East.
Because our product has been awarded an International Standards Quality Control Certificate.
Because our product is part of the Hungarian national heritage.
Because we are an employee buy-out.
Because we are a management buy-in.
Because we are partly state-owned.
Because we are partly privately-held.
Because our creditors drove us into bankruptcy when they loaned to us at higher than market rates to artificially raise bank profits in order to pay dividends into a state treasury whose coffers had dwindled when corporations like ourselves effectively stopped paying taxes.

And so we must ask, into whose account and by which account will debt forgiveness flow? Or, in such a situation, is anyone accountable?

Should there then be only one accounting, perhaps with profitability as the single metric? Such was the attempt of communism -- the imposition of a unitary justificatory principle, a strict hierarchy of property forms, and a reduction of all of human history to one grand narrative. It would be a tragedy beyond irony if East European capitalism would replicate such a monochrome with a different coloring. The vitality and exuberance of modernity stem precisely from the colorful interweaving of multiple ordering principles. It might be objected, of course, that multiple orders are fine -- provided that each occupies a distinctly bounded domain. Such is the perspective of modernity in "modernization" theory: through differentiation, each domain of society would develop as a separate autonomous sub-system with its own distinctive logic. Complexity in this view was diversity, but only through the juxtaposition of otherwise clearly bounded rationalities. Marxism, of course, had its own view of complexity; the temporary overlay of mutually contradictory principles. Both modernization theory and Marxism were deeply grounded in the transition problematic. The noisy clash of orders is only temporary: the revolutionary moment for one, the passage to differentiated domains in the other.

If we break with this transition problem, we can escape from the impoverished conceptions of complexity in both Marxism and modernization theory. In an alternative conception, complexity is the interweaving of multiple accountings on the same domain space. The alternative view holds to this conception not for the aesthetic reason that life is then more colorful or lively but for good economic reasons. An economy's dynamic efficiency rests on diversity. Without diversity of organizational forms an economy cannot adapt to changes in the environment. Or it can do so only at extraordinary costs when organizations and institutions are replaced wholescale. Diversity is less expensive in the long run even if not every organizational form performs at some maximum allocative efficiency. Least expensive are organizations with enough reflexivity to reshape themselves. And both diversity (the emergence of new organizational forms) and reflexivity (the ability to redefine resources and arrange them in new combinations) are products of the clash of ordering principles within an economy and sometimes even within the same organization.[32] Thus, we might say that, as opposed to allocative efficiency, an economy's adaptive efficiency depends on a multiplicity of ordering principles within the economy itself.

The problem is that too many ordering principles -- too many diverse accountings -- can produce unaccountability. An actor who, within the same domain space, is accountable to every principle is accountable to none. Accountability, like diversity and adaptability, is a value not simply for moral reasons, but for good economic reasons: there is nothing of value outside of accounts. The difficult condition of modernity is to facilitate enough diversity to foster adaptability and enough boundedness of rationalities to foster accountability. It is not in finding the right mix of public and private but in finding the right mix of adaptability and accountability that post-socialist societies face their greatest challenge.

[32] For similar argumentation based on different cases see especially Grabher, 1994; and also Landau, 1969; and White, 1993. For related views on adaptability and complexity see especially Morin, 1974; and Conrad, 1983.

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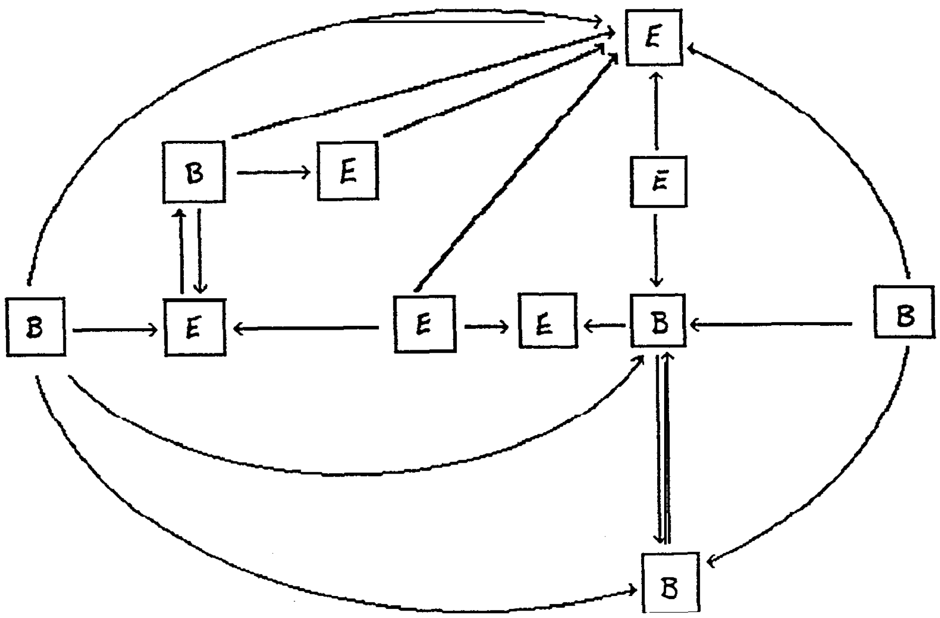
Table 1. Main Enterprise Forms in Hungary, 1988-I 994

Organizational Form	1988 Dec	1989 Dec	1990 Dec	1991 Dec	1992 Dec	1993 Dec	1994 May
State Enterprises	2,378	2,400	2,363	2,233	1,733	1,130	892
Shareholding companies (RT)	116	3 0	7 646	1,072	1,712	2,375	2,679
Limited Liability companies (KFT)	450	4,464	18,317	41,206	57,262	72,897	79,395

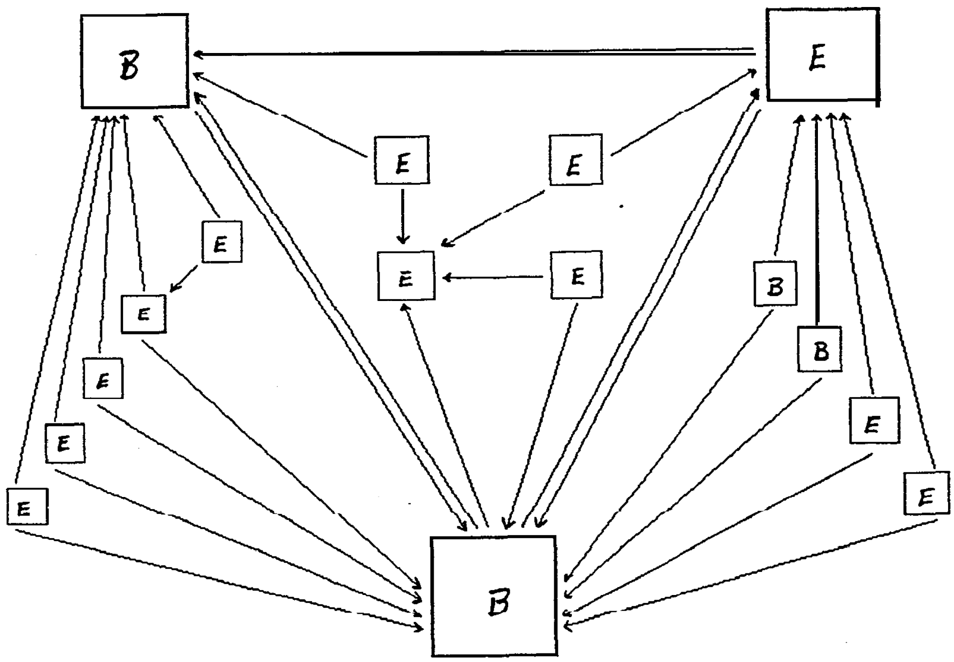
Source: National Bank of Hungary, Monthlv Reoort 1994/2, and Hungarian Central Statistical Office, Monthlv Bulletin of Statistics 1994/5.

Figure 1. Two Inter-enterprise Ownership Networks among Large Hungarian Firms.

Network I.



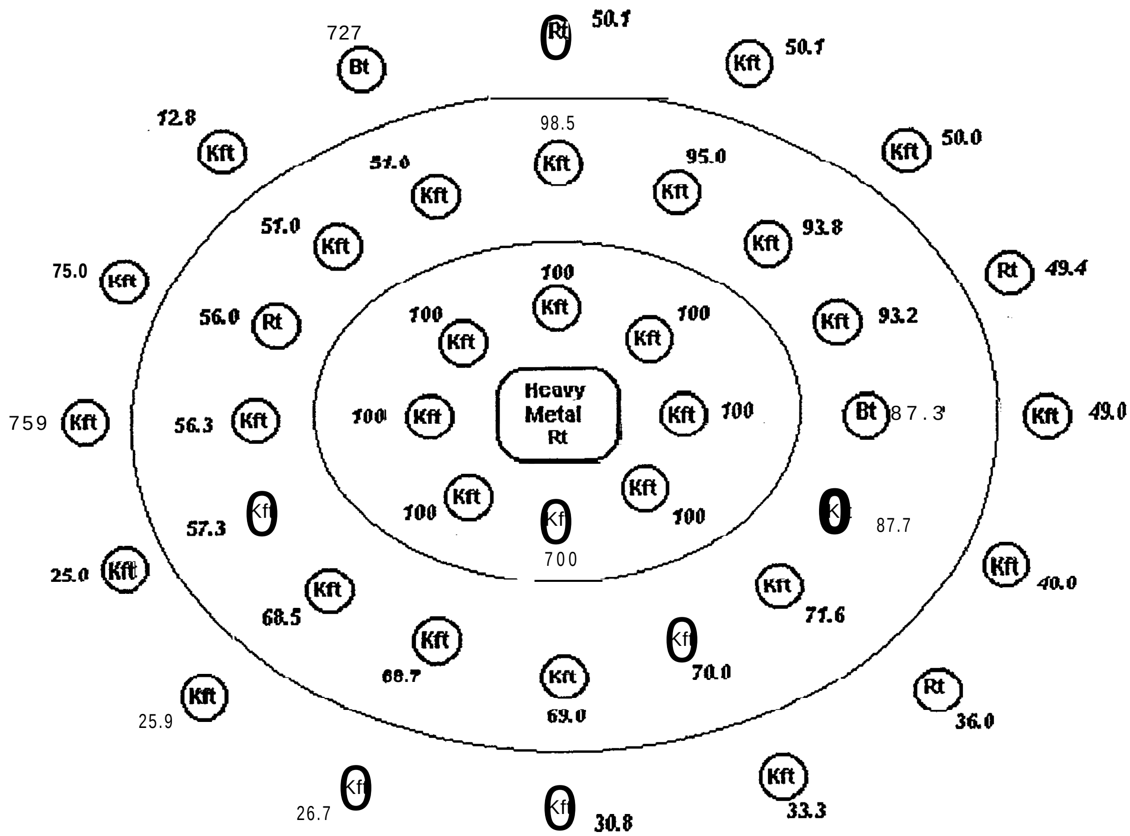
Network II.



B - Financial Institution (Bank or Insurance) **E - Enterprise**

Source: Corporate files of the largest 200 enterprises and top 25 banks in the Hungarian Courts of Registry.

Figure 2. Corporate Satellites at Heavy Metal



Rt - Shareholding Company
Kft - Limited Liability Company
Numerals in italics indicate Heavy Metal's ownership stake in a given satellite.

Source: Internal company documents at Heavy Metal.